

MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
FINANCE AND ADMINISTRATION COMMITTEE

Wednesday, August 15, 2012 – The members of the Finance and Administration Committee of the University of Houston System convened at 11:32 a.m. on Wednesday, August 15, 2012 at the University of Houston, Conrad Hilton Ballroom, Second Floor, 4800 Calhoun, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Jarvis V. Hollingsworth, Chair
Spencer D. Armour, III, Member
Tilman Fertitta, Member
Welcome W. Wilson, Jr., Member
Nelda Luce Blair, Ex Officio

Non-Member(s) Present

Nandita V. Berry, Regent
Roger F. Welder, Regent
Gage A. Raba, Student Regent

In accordance with a notice being timely posted with the Secretary of State and there being a quorum of the board present, Chair of the Committee, Jarvis V. Hollingsworth, called the meeting to order.

Regent Hollingsworth stated there would be eight (8) approval items presented for the committee's consideration in addition to the approval of the minutes from the previous meeting held on May 16, 2012. Regent Hollingsworth then introduced Item B, the approval of minutes.

AGENDA ITEMS

Action Items:

1. Approval of Minutes – Item B

On motion of Regent Wilson, Jr., seconded by Regent Armour, and by a unanimous vote of the members in attendance, the following minutes from the meeting listed below were approved:

- May 16, 2012, Finance and Administration Committee Meeting

Regent Hollingsworth stated the agenda would be taken out of order and several items dealing with the approval of contracts would be presented at one time. Dr. Carl Carlucci, Executive Vice Chancellor for Administration and Finance stated the following items would be introduced to the committee – Item C, Item G, Item H and Item I. After the committee was presented these four (4) items, they were considered for committee approval.

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1. Approval is requested for ratification of the restoration and recovery services agreement and extension with Cotton Commercial USA, Inc. for the University of Houston System, University of Houston System - Item C – F&A-C1-7

Dr. Carlucci requested approval for ratification of the restoration and recovery services agreement with Cotton Commercial USA, Inc. not to exceed \$6 million. It was stated that this vendor provided emergency restoration services on an “as needed” basis for the University of Houston and the University of Houston System campuses; and this contract would allow the UH System to properly prepare and recover from emergencies of all types of magnitudes and was part of a proactive emergency response plan. This contract was publicly bid and was an extension of a contract that began on May 31, 2010. This was a one-year renewal from May 31, 2012 to May 31, 2013.

2. Approval is requested to purchase campus-wide Microsoft licenses for the University of Houston, University of Houston - Item G – F&A-G22-23

Dr. Carlucci requested approval to purchase campus-wide Microsoft licenses for the University of Houston. The total cost would not exceed \$1,217,000, which is a savings of approximately \$300,000 compared to purchasing individual licenses through the State contract.

3. Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts with Taconic Farms not to exceed \$1.7 million, University of Houston - Item H – F&A-H24-25

Dr. Carlucci requested approval to delegate authority to the Chancellor to negotiate and execute contracts with Taconic Farms not to exceed \$1.7 million. The approval of this item would allow the Center for Nuclear Receptors and Cell Signaling (CNRCS) to purchase, house, breed, and conduct experiments on transgenic mice for research purposes under an existing three-year pricing agreement. Currently, purchases under this three-year pricing agreement total \$889,000 and ends November 11, 2013; and it is expected that the CNRCS will purchase another \$811,000 in specialized mice during the remainder of the agreement for a total purchase not to exceed \$1.7 million.

4. Approval is requested to delegate authority to the Chancellor to negotiate and execute a contract with Groome Transportation for providing shuttle bus service to the University of Houston not to exceed \$12 million, University of Houston - Item I – F&A-I26-27

Dr. Carlucci requested approval to delegate authority to the Chancellor to negotiate and execute a contract with Groome Transportation for providing shuttle bus service to the University of Houston not to exceed \$12 million. This contract was also available to the University of Houston System. Following a competitive process, Groome was awarded a multi-year, five-year contract beginning with FY2013. This service is beneficial to the University because it provides an alternative form of transportation to the faculty, staff and students who need mobility around the campus.

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Following the presentation of the above four (4) action items, Regent Hollingsworth called for a motion to approve these items as presented and to move these items to the Board's Consent Docket Agenda.

On motion of Regent Monty, seconded by Regent Wilson, Jr., and by a unanimous vote of the board members in attendance, the following four (4) action items were approved by the committee and will be placed on the Board's Consent Docket Agenda for final Board at the meeting scheduled on August 15, 2012.

1. Approval is requested for ratification of the restoration and recovery services agreement and extension with Cotton Commercial USA, Inc. for the University of Houston System;
2. Approval is requested to purchase campus-wide Microsoft licenses for the University of Houston;
3. Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts with Taconic Farms not to exceed \$1.7 million; and
4. Approval is requested to delegate authority to the Chancellor to negotiate and execute a contract with Groome Transportation for providing shuttle bus service to the University of Houston not to exceed \$12 million.

Regent Hollingsworth requested Dr. Carlucci introduced the following three (3) action items which were related and presented as a package to the committee as follows:

Item D. - Approval is requested to delegate authority to the Chancellor to negotiate and execute Amendment No. 1 to Ground Lease Agreement between University of Houston System and Sugar Land 4B Corporation, University of Houston – F&A-D8-9.1;

Item E – Approval is requested to delegate authority to the Chancellor to negotiate and execute a ground lease between UHS, through its Center for Industrial Partnerships, with a Special Purpose Entity, of approximately 5 acres at UH Sugar Land for technology development and educational programs, University of Houston – F&A-E10-15; and

Item F – Approval is requested to delegate authority to the Chancellor to negotiate and execute a lease between UHS Center for Industrial Partnerships and Special Purpose Entity for Center to lease approximately 47,000 square feet of 60,000 square foot building to be constructed for technology development and educational programs, University of Houston – F&A-F16-20.

Dr. Carlucci stated the board would be presented with several items, as part of a package, and it was determined that individually these items would be difficult to interpret, but as a package, the board would be able to see what the university was trying to develop at the UH Sugar Land campus. Dr. Carlucci gave a brief history of this initiative as follows:

- In 1997, the university acquired the land from DOT;
- The covenant and the acquisition was for an educational purpose;
- The university is going to go to the Legislature to try to make some modification of the language, but again at this point, it remains an educational purpose;

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- A digital media program has already been approved for this campus by the Academic and Student Success Committee in February 2012;
- The lease with the City of Sugar Land, which was created 2005, would be coming before the board because the university will be consolidating land under this lease; and
- In 2012, the Facilities, Construction and Master Planning Committee approved a site for a partnership building.

Dr. Carlucci stated there was a history whereby we were working through a plan that had first approved the academic programs; then approved the facility programs; and then approve the financing or lease.

The Academic and Student Success Committee held on August 14, 2012, approved a new academic program to develop a theater and festival site at the UH Sugar Land campus that would support the academic program expansion. The development of the proposed theater and festival site would allow the higher education partners to expand programs in event management and initiate programs in the visual/performing arts. A Declaration of Higher Educational Purpose related to the City of Sugar Land's development and use of 52 acres, leased by UHS to the Sugar Land 4B Corporation for a theater and festival complex was also approved by this committee at the meeting. Both of these initiatives will be presented to the Board for final approval on August 15, 2012.

The Facilities, Construction and Master Planning Committee held on August 14, 2012, approved the request to delegate authority to the Chancellor to negotiate and execute a Facilities Development Agreement with the City of Sugar Land to allow for the development of basic infrastructure required for the future development of their leased property. This would be Phase I of development with Phase II expected in Spring 2013 and Phase III in Fall 2015. This item will be presented to the Board for final approval on August 15, 2012.

Committee approval for the ground lease between UHS, through its Center for Industrial Partnerships created under Chapter 153 of the Texas Education Code, with a Special Purpose Entity (SPE) for approximately 5 acres at UH Sugar Land was requested. The term of the lease would be 25 years, with a renewal option upon mutual agreement. Rent would be \$1.00 per year. The ground lease would be for the SPE to build and manage a 60,000 square foot building at UH Sugar Land to house academic programs (UH, UH-Victoria, and Wharton County Junior College) related to digital media, interactive technologies, digital game design/development and/or computer information systems. This facility would be called the TimeGate Building.

Committee approval was also requested for a lease between UHS Center for Industrial Partnerships and Special Purpose Entity (SPE) for Center to lease approximately 47,000 square feet of 60,000 square foot building to be constructed for technology development and educational programs. The term of this lease would be 25 years, renewable for 2 five-year periods. Rent will be \$775,000 per year. UHS would sublease to Wharton County Junior College approximately 10,000 square feet for higher education use. The remaining 13,000 square feet of building would be utilized for the operations of an affiliate of the SPE that is also involved in providing educational-related services and technology development at the building.

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Approval of the committee was also requested to delegate authority to the Chancellor to negotiate and execute Amendment No. 1 to the Ground Lease Agreement between University of Houston System and Sugar Land 4B Corporation.

Following Dr. Carlucci's overview of the three (3) items presented, Regent Hollingsworth suggested Mr. Marshall Schott, Associate Vice Chancellor for Planning and Administration outline these items (Items D, E and F) for the committee. It was explained that the university would:

1. Amend the Ground Lease to combine the property as described in Item D;
2. Have a Ground Lease with the property TimeGate as outlined in Item E; and
3. Lease 47,000 square feet in the building TimeGate would build.

Mr. Schott addressed Item D, the amendment to the contract of the lease agreement the university executed with Sugar Land 4B Corporation in 2005. The 2005 agreement contemplated the development of two separate parcels on the UH Sugar Land campus. One was a 45-acre tract and the other tract was a 7-acre piece of property in the southeastern quadrant. In order for the development of the theater and festival complex to take place, they have requested that this agreement be amended so that they have what ultimately becomes a contiguous holding of 52 acres. Essentially this amendment would transfer the 7-acre parcel to a location along Hwy 59. This would give them an opportunity to develop the festival site in this location and the theater site developed in the far southern quadrant of the campus. Mr. Schott stated this was consistent with the campus master plan that had been presented at the Facilities, Construction and Master Planning Committee on August 14, 2012. The university has been working with DesignLab for a long-range, land-use plan for this campus; and all of these elements that will be contained in the lease agreement will be consistent with the campus master plan.

Ms. Dona Cornell, General Counsel, presented an update to the committee on the ground lease. In reviewing the Texas Education Code, Ms. Cornell stated the appraisal was not required to do the swap on the lease so the university would not need to go forward with it. The other two issues that were raised at the meeting were as follows:

1. To make certain the university included language for signage along the frontage so that the university would have some ability to control the signage along that frontage area; and
2. To address minerals and mineral interests on the property to make certain this was also included in the lease amendment.

A discussion followed. Regent Hollingsworth recommended that in order to move Item D forward, the committee requested that the administration be tasked with conducting a financial analysis with respect to the swap, and when completed, the administration would provide the results to the committee members and/or the board. Regent Wilson, Jr. recommended that any amendments to the UH Sugar Land lease include signage, no transfer of mineral interests or executory rights, and the non-exclusive access that the university would maintain through the site.

Regent Hollingsworth stated that going forward that any lease regarding the UH Sugar Land campus have the standard terms in the lease which would include signage, no transfer of mineral

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interests or executory rights, and unfettered access to the property. Ms. Cornell stated that these standard terms would be included in the lease and/or contracts going forward.

Regent Hollingsworth called for a motion of approval of Item D, subject to the amendments as stated above.

On motion of Regent Wilson, Jr., seconded by Regent Armour, and by a unanimous vote of the board members in attendance, the request to delegate authority to the Chancellor to negotiate and execute Amendment No. 1 to Ground Lease Agreement between University of Houston System and Sugar Land 4B Corporation with the suggested amendments was approved by the committee and will be placed on the Board's Consent Docket Agenda for final Board at the meeting scheduled on August 15, 2012.

Mr. Schott outlined action items E and F for the committee. As was discussed in terms of the longer term development, Mr. Schott stated the university has been in negotiations with the Special Purpose Entity (SPE) to construct a facility that would house a number of programs in the interactive media area including a digital media program from the University of Houston; a graduate program in digital gaming from the University of Houston; an undergraduate program from the University of Houston-Victoria in digital gaming; as well as a two-year associates program from Wharton County Junior College. Item E addresses the ground lease agreement to provide 5 acres for the SPE to build a 60,000 square foot facility that would house our academic programs as well as a corporate partner, TimeGate Studios. This will be done through the Center for Industrial Partnerships.

The occupancy agreement would be executed with the SPE whereby the university would pay lease in the amount of \$775,500 per year to the SPE in return for 47,000 square feet which would be used by the higher education partners. A market analysis has been done for this region. The base rent is \$16.50 per square foot, which is at or below the current rate for Sugar Land and Fort Bend County. The long-term lease of 25 years would revert back to the university after the 25 year period. The construction standards would be consistent with the campus standards for UH Sugar Land.

In summary, this is the long-term lease agreement with the SPE to build the TimeGate facility at the UH Sugar Land campus. The SPE is bearing the cost of constructing this facility; it is being constructed to the university's standards; the SPE will be responsible for managing the building; the university has the right of refusal for any perspective new tenant that would come into the facility; and they would have to be specific with our covenant, TX DOT; and we would have right of first refusal should TimeGate vacate the property. The remaining 13,000 square feet of this area would be housed by TimeGate.

Following Mr. Schott's presentation, Regent Hollingsworth called for a motion to approve Item E and Item F as presented and to move these items to the Board's Consent Docket Agenda.

On motion of Regent Armour, seconded by Regent Wilson, Jr., and by a unanimous vote of the board members in attendance, the following two (2) action items were approved by the

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committee and will be placed on the Board's Consent Docket Agenda for final Board at the meeting scheduled on August 15, 2012.

1. Approval is requested to delegate authority to the Chancellor to negotiate and execute a ground lease between UHS, through its Center for Industrial Partnerships, with a Special Purpose Entity, of approximately 5 acres at UH Sugar Land for technology development and educational programs, University of Houston – F&A-E10-15; and
2. Approval is requested to delegate authority to the Chancellor to negotiate and execute a lease between UHS Center for Industrial Partnerships and Special Purpose Entity for Center to lease approximately 47,000 square feet of 60,000 square foot building to be constructed for technology development and educational programs, University of Houston – F&A-F16-20.

Regent Hollingsworth recessed the committee at 12:40 p.m. and reconvened the Finance and Administration Committee meeting at 12:56 p.m.

The next action item presented was the Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts up to \$85 million for the design and construction of Phase One of the New Football Stadium at the University of Houston - Item J – F&A-J28-30

Dr. Carlucci presented this item which requested approval to delegate authority to the Chancellor to negotiate and execute contracts up to \$85 million for the design and construction of Phase One of the new football stadium at the University of Houston. Dr. Carlucci outlined the project budget for Phase One of the new stadium which totaled \$85,000,000 of the projected \$105,000,000 for the new facility.

The project schedule was addressed and if approved, the construction on this project would begin in December 2012. The demolition of the stadium would begin immediately following the completion of the 2012/13 football season.

Chancellor Khator gave brief comments regarding this item and below is a summary of her remarks.

- The new stadium project totals \$105,000,000;
- The stadium capacity would be 40,000; and
- The date for the first game to be played in the stadium would be in the 2014 season.
- These three (3) goals remain non-negotiable.
- The request for approval of the \$85,000,000 is what is currently in hand.
- The remaining \$20,000,000 and above is being raised and the Finance Committee will bring back Phase Two of this request at a later date.
- This will be a fabulous stadium and will allow the university the opportunity to be competitive in the Big East.

A brief discussion followed. Regent Hollingsworth called for a motion to approve this item as presented.

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On motion of Regent Armour, seconded by Regent Wilson, Jr., and by a unanimous vote of the board members in attendance, the request to delegate authority to the Chancellor to negotiate and execute contracts up to \$85,000,000 for the design and construction of Phase One of the New Football Stadium at the University of Houston was approved. This will be addressed at the Board of Regents meeting scheduled for August 15, 2012.

The last item presented was for information, Report on the prospect sale of UH property in a residential area adjacent to the Texas Medical Center at or above the current appraised value of \$11 million – University of Houston System, Item K – F&A-K31-34.

Dr. Carlucci presented this report which outlined the prospective sale of a 4.2 acre tract located in a residential area adjacent to the Texas Medical Center at or above the current appraised value, which was gifted to the University by Carolyn Grant Fay in 1996. The property was re-appraised in 2012 with a valuation of \$11 million, due in large part to increasing market values in the area spurred by increased development activity. The university currently has an offer that matches the appraised value; and the value has already been distributed into the endowment so there are no budget implications.

This item was presented for information only and required no further committee action.

There being no further business to come before the committee the meeting adjourned at 1:06 p.m.

All documentation submitted to the Committee in support of the foregoing action items, including but not limited to “Passed” agenda items and supporting documentation presented to the Committee, is incorporated herein and made a part of these minutes for all purposes; however, this does not constitute a waiver of any privileges contained herein.

Others Present:

Renu Khator
Carl Carlucci
John Antel
Dona Cornell
Philip Castille
William Flores
William Staples
Rathindra Bose
Grover Campbell
Eloise Stuhr
Richard Walker
Dan Maxwell
David Ellis

Don Guyton
Raymond Bartlett
Tom Ehardt
Turner Harris
Craig Ness
Ed Hugetz
Mike Guidry
Jonathan Thurston
Dimitri Litvinov
James Anderson
Emily Messa
Mike Glisson
Wayne Beran

Carl Stockton
Oscar Gutierrez
Karen Clarke
Cedric Bando
Mike Emery
Chris Stanich
Sean York
Jeffrey Cass
Marshall Schott
Elaine Charlson
Karen Clarke
Michelle Dotter
Pam Muscarello

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Others Present (cont'd):

Willie Munson
Steve Wallace
Ed Jones
Gerry Mathisen

Dan Maxwell
Dan Wells
Marquette Hobbs

Theresa Singletary
Jon Aldrich
Brenda Robles